

Media Release:

# Bank of Panhsin Upgraded On Moderately Improved Capitalization And Sustained Asset Quality; Outlook Stable

October 12, 2020

## Overview

- Bank of Panhsin's capitalization has gradually improved over the past five years through earnings accumulation and capital injections, and we expect the bank to sustain such improvement over the next two years.
- We also assess that the bank's asset quality has stabilized and is likely to remain so over the next two years.
- We are raising our issuer credit ratings on Bank of Panhsin to 'twBBB/twA-2' from 'twBBB-/twA-3'.
- The rating outlook is stable to reflect our expectation that the bank will maintain its capitalization over the rating horizon. At the same time, we expect Bank of Panhsin to maintain its asset quality supported by strengthened underwriting and risk control.

## Rating Action

Taiwan Ratings Corp. today raised its issuer credit ratings on **Bank of Panhsin** to 'twBBB/twA-2' from 'twBBB-/twA-3'. The outlook on the long-term rating is stable.

## Rationale

We upgraded Bank of Panhsin reflect our view that the bank will sustain its moderately improved capitalization and stabilized asset quality over the next two years.

We expect Bank of Panhsin's capitalization to range between 6%-7% over the next two years through controlled growth in risk assets and prudent capital management. We continue to assess the bank's capital as moderate, as reflected by a risk adjusted capital (RAC) ratio of 6.95% in 2019. This compares with 6.86% at the end of 2018 and 6.55% at the end of 2017. The level is at the higher end of our moderate assessment and close to the hurdle of achieving an adequate assessment. Aside from capital injections of New Taiwan dollar (NT\$) 450 million at the end of 2018, full earnings retention and moderate growth in risk assets have helped support this capitalization improvement. We also believe Bank of Panhsin will continue to pursue prudent mid-single-digit growth over the coming two years, which should support its current capitalization.

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In addition, we believe that the bank's asset quality matrix has stabilized over the past two years, following the bank's efforts to tighten its underwriting controls, write off nonperforming loans, quicken the clean-up of foreclosed assets, and increase nonperforming loan coverage. Bank of Panhsin's official nonperforming loan ratio was 0.46% with a coverage ratio of 278% as of the end of June 2020. This compares favorably with the bank's official nonperforming loan ratio of 0.80% and coverage ratio of 155% at the end of 2017. As a result of COVID-19 pandemic's blow to the domestic economy, Bank of Panhsin's credit losses will likely rise this and next year together with that of its Taiwan peers. Nonetheless, we expect the bank can sustain its asset quality without material deterioration over the next two years.

### Outlook

The stable outlook reflects our expectation that Bank of Panhsin will maintain its financial profile with a risk-adjusted capital (RAC) ratio ranging from 6%-7% over the next one to two years. The level is lower than the industry average and provides a limited buffer to absorb unexpected operating losses, particularly on potential property price volatility. The outlook also reflects our expectation that Bank of Panhsin will control its loan growth and exercise prudent capital policies to sustain its capital strength over the next one to two years while maintaining its asset quality comparable to similarly rated peers.

#### Downward scenario

We may lower the ratings if the bank cannot sustain its capitalization at the current level or if its asset quality trend indicates more drastic deterioration compared with similarly rated peers. Such weakening could be due to overly aggressive risk asset growth, worsening of profitability, or loosened underwriting controls over the next two years.

#### Upward scenario

We may raise the rating if the bank could strengthen its capitalization with a RAC ratio firmly above 7% in the coming two years.

### Related Criteria & Research

#### Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011

## Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Upgraded

	To	From
<b>Bank of Panhsin</b>		
Issuer Credit Rating	twBBB/Stable/twA-2	twBBB-/Positive/twA-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.taiwanratings.com](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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